

International  
Non-Profit  
Accounting  
Guidance  
Part 1 INPAG  
Exposure  
Draft

Specific matters for comment

Question 1: General comments References

a) Is the structure of INPAG helpful? If not, how could it be improved? GP22-GP24

**Comment: Yes. It is helpful**

b) Do you have any other comments (including regulatory, assurance or cost/benefit) relating to this INPAG Exposure Draft? If so, explain the rationale for any points you wish to make.

**Comment: SIRC of ICAI suggest the possibility of establishing a simplified treatment, separately from the fundamental accounting standards. This is because smaller organisations are considered to have more restrictions than larger ones in terms of accounting practices and costs.**

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Question 2: Description of NPOs and users of INPAG References

a) Do you agree with the description of the broad characteristics of NPOs? Does the term 'providing a benefit to the public' include all entities that might be NPOs? If not, what would you propose and why? G1.2-G1.5

**Comment: The Fundamental Concepts assume that in not-for-profit organisations, financial resources accumulated through business activities are used to achieve their organisational objectives. In limited circumstances, some corporations may be allowed to distribute surplus in the form of dividends or distributions, etc., or to return residual assets including surplus monies to resource providers, in accordance with the contribution ratio, etc. upon the appropriation of residual assets. With regard to payments to resource providers, if the payment is in effect merely a refund of contributed assets, it is not considered the provision of economic benefits to the resource provider. On the other hand, in some cases, it may be possible to distribute surplus, or financial resources earned through organisational activities. In such cases, as a basis for classifying the organisation as a not-for-profit organisation, we have decided to determine whether they are intended to provide economic benefits to resource providers, by taking into account the size of such economic benefits to be enjoyed by and the risks to be borne by the resource providers, as well as whether the resource providers expect to receive economic benefits in return for the resources they provide. If such intention by the organisation distributing surplus is not recognised, we categorize the organisation as a not-for-profit organisation.**

b) Does Section 1, together with the Preface, provide clear guidance on which NPOs are intended to benefit from the use of INPAG? If not, what would be more useful?

**Comment: The Fundamental Concepts assume various stakeholders as the main stakeholders of not-for-profit organisations, including resource providers, creditors, beneficiaries, employees, volunteers, and local residents. Regulators, which are explicitly identified as stakeholders, are generally positioned as important stakeholders because**

they, acting as competent authorities, can directly require not-for-profit organisations to provide financial reports, and the reporting of financial information is required by law for administrative purposes. The ED is focused on general purpose financial reporting to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information need, The ED position regulators lower than other stakeholders in terms of the priority of stakeholders. Among the main stakeholders, the ED positioned resource providers and creditors as the main information users, and therefore focused on constructing a financial reporting model that meets their information needs.

SIRC of ICAI have witnessed a growing demand from society for establishing a financial reporting framework that meets the needs of diverse stakeholders in a balanced manner. However, if a financial reporting framework is constructed in such a manner, it will lead to the problem that the volume of information to be provided could be enormous and financial statements could be too complicated. From the perspective of the usefulness and cost-effectiveness of financial reporting, SIRC of ICAI believe that the ED should focus on important information needs of stakeholders. Based on this, the Fundamental Concepts and the Model Accounting Standards focus on constructing a financial reporting model that meets the need of resource providers and creditors, whom SIRC of ICAI have positioned as the main information users of the financial reporting of not-for-profit organisations. Resource providers here include not only direct resource providers such as donors, grant and subsidy providers, but also indirect resource providers such as taxpayers who indirectly provide financial resources through paying taxes to the government. SIRC of ICAI focus on the information needs of resource providers and creditors not because we believe that the needs of other stakeholders should be neglected, but rather SIRC of ICAI believe that constructing a consistent financial reporting model that takes into the needs of such a wide range of resource providers and creditors will lead to the preparation of financial reports that meet the diverse needs of other stakeholders.

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Question 3: Concepts and pervasive principles References

a) Do you agree with the range of primary users and the description of their needs? If not, what would you propose and why? G2.3-G2.12

**Comment:** Yes. SIRC of ICAI agrees. SIRC of ICAI would like to add that to provide the information useful for decision-making, the ED need to take into account the purpose of the use of financial reporting by resource providers and creditors. Resource providers provide resources necessary for activities by not-for-profit organizations to achieve their objectives. The information provided by a not-for-profit organization through its financial reporting affects the decision by the donor, etc. on whether or not to provide resources to the organization, and the choice of a recipient of resources based on its business, activities and scale, as well as the timing of providing resources.

SIRC of ICAI is of the view that financial reporting should cover the following three in order to satisfy information needs:

- 1) the capacity to continue activities,
- 2) organizational activities, and
- 3) the consistency with the purposes of resource providers.

b) Do you agree with the qualitative characteristics of useful information? If not, what would you change and why? G2.13-G2.32, AG2.1-AG2.3

**Comment:** Yes. SIRC of ICAI agrees. Further we add that-

In order to achieve the objectives of financial reporting, which are the provision of information useful for decision-making and fulfilling accountability-based stewardship, SIRC of ICAI reviewed the qualitative characteristics required of financial information. In the process of review, SIRC of ICAI referred to the international frameworks for accounting for for-profit corporations and public accounting. SIRC of ICAI have concluded that financial information should satisfy the following two basic characteristics:

relevance and faithful expression. Relevance is a characteristic that can make a difference in decision-making by the users of financial information and affect their understanding of the status of resource usage in an organization, while faithful expression is a characteristic that ensures the information faithfully depicts its intended phenomenon. Faithful expression is built on the following three characteristics: completeness, neutrality, and being free from material errors. The usefulness of financial information is enhanced by four characteristics:

- a) comparability,
- b) verifiability,
- c) timeliness, and
- d) understandability,

which are referred to as enhancing qualitative characteristics, compared to basic qualitative characteristics. Specifically, they are positioned as the characteristics that further enhance the usefulness of financial information to the extent that the information satisfies the basic qualitative characteristics. Cost is one of the general prerequisites for the information provided through financial reporting. While preparing and reporting financial information deliver benefits to the users of financial information, the preparers have to incur the costs for gathering, processing, verifying, publishing and spreading the financial information. In applying the concept of cost as a requisite, evaluate whether the benefits of reporting specific information outweigh the costs incurred in connection with providing and using such information.

c) Do you agree with the components of net assets? If not, why not? G2.73, Figure 2.2

**Comment:** Yes. SIRC of ICAI agree. However, SIRC of ICAI would like to point out that it is necessary to examine whether the assets of not-for-profit organizations – economic resources – are limited only to those that deliver economic benefits or also include those that do not deliver economic benefits. Not-for-profit organizations often hold assets as a foundation for their activities to achieve organizational objectives related to public

interest or common benefit, even if such assets do not constitute the sources of future cash inflows. The status of such resources is important information for resource providers and creditors in understanding the organization's capacity to continue its activities. In addition, from the viewpoint of understanding organizational activities, it is imperative that depreciable/amortizable resources, which are the sources of the organization's ability to provide services in the future, are recognized in assets and depreciated/amortized each fiscal year based on the status of their utilization, or specifically, in a manner to reflect the degree of the organization's efforts through its activities. Therefore it would be appropriate to include, in the assets that are an element of financial statements, the resources that constitute the sources of the organization's ability to provide services and achieve its organizational purposes, which contribute to public interest or common benefit.

d) Do you agree with the inclusion of equity as an element? If not, what would you propose and why? What type of equity might an NPO have? G2.141, AG2.6-AG2.9

**Comment: Yes. SIRC of ICAI agree.**

e) Do you agree with the categorisation of funds between those with restrictions and those without restrictions in presenting accumulated surpluses and deficits? If not, what would you propose and why? G2.74-G2.75, AG2. 4-AG2.5

**Comment: Yes. SIRC of ICAI agrees.**

f) Do you agree that funds set aside from accumulated surpluses for the holders of equity claims can be part of funds with restrictions and funds without restrictions and that they should be transferred to equity prior to distribution? If not, what would you propose and why? G2.142, AG2.8-AG2.9

**Comment: Yes. SIRC of ICAI agrees.**

g) Do you agree that 'service potential' should be introduced into Section 2? If not, why not?

G2.51, G2.54, G2.58, G2.67-G2.68, G2.103, G2.108-G2.110, G2.115-G2.117, G2.122

**Comment: Yes. SIRC of ICAI agrees.**

h) Do you agree that the provisions for 'undue cost and effort' used in the IFRS for SMEs Accounting Standard should be retained? If not, why not? G2.33-G2.36

**Comment: Yes. SIRC of ICAI agree that the provisions of 'undue cost and effort' to be retained.**

i) Is the NPO as a reporting entity clear? Does the process for identifying branches in the Application Guidance support the principles? If not, what would be more useful?

G2.43-G2.49, AG2.10-AG2.24.

**It is clear. In not-for-profit organisations, financial resources accumulated through business activities are expected to be used to achieve their organisational objectives. The legal system in Japan also generally imposes certain restrictions on the distribution of**





**Comment:** Yes. Financially independent organizations have no restrictions, while organizations dependent on donations and subsidies do have restrictions. Therefore, the latter needs to distinguish between unrestricted inflows that can be used at the discretion of the organization and restricted inflows. For organizations dependent on donations and subsidies, it is important to provide information on the status on restraint and usage of resources.

b) Do you agree that donations or grants received for the purchase or creation of property, plant and equipment should be treated as investing activities? If not, what alternative would you propose and why? G7.5 b)

**Comments:** SIRC of ICAI do not agree since NPO are non profit motive, there cannot be any 'investment'. Investments are made to see accretion in wealth. In recent years, the distinction between for profit and not for profit organizations has become increasingly ambiguous, making it difficult to clearly divide the two. Also, given the preferential treatment of deemed donations in place, corporations are incentivized to fund their operations with the combination of income from donations and subsidies and revenue from sales of goods and services. Some organizations intended to serve the public interest, such as social welfare corporations, are dependent on public resources as their main sources of fundraising based on the social insurance system, while earning revenue directly from sales to customers. These organizations may receive requests to secure resources in the form of Endowment Funds, even if they are not imposed any restriction on the use of resources provided by resource providers. For not for profit organizations that have both business and non-business characteristics, the financial reporting framework for not for profit organizations must be designed so that the framework is applicable to economic activities seen in business organizations. Therefore donations or grants received for the purpose of creation property to be classified as 'aset' and not as 'investments'. Not-for-profit organizations often hold assets as a foundation for their activities to achieve organizational objectives related to public interest or common benefit, even if such assets do not constitute the sources of future cash inflows. The status of such resources is important information for resource providers and creditors in understanding the organization's capacity to continue its activities. In addition, from the viewpoint of understanding organizational activities, it is imperative that depreciable/amortizable resources, which are the sources of the organization's ability to provide services in the future, are recognized in assets and depreciated/amortized each fiscal year based on the status of their utilization, or specifically, in a manner to reflect the degree of the organization's efforts through its activities.

c) Do you agree that both the direct method and indirect methods for the cashflow statement should be permitted? If not, why not? G7.7-G7.9

**Comments:** We disagree. Two methods will exhibit distorted picture to public. Further, the difficulty and time required to list all the cash disbursements and receipts—required for the direct method—makes the indirect method a preferred and more commonly used practice. Since most companies use the accrual method of accounting, business activities are recorded on the balance sheet and income statement consistent with this method.

The direct and indirect cash flow method is useful at different points, and it can be used depending on the situation and the requirement. The indirect method is the most popular among companies. But it takes a lot of time to prepare and it's not very accurate as many adjustments are used. On the other hand, the direct method doesn't need any preparation time other than segregating the cash transactions from the non-cash transactions. And it's more accurate than the indirect method.

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Question 9: Principles underpinning the notes to the financial statements

a) Do you agree that there are no NPO specific considerations for this Section? If not, what changes would you propose and why?

**Comment: Yes. SIRC of ICAI agrees that there are no NPO specific considerations.**

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Question 10: Approach to consolidated and separate financial statements      References

a) Is the Application Guidance to apply the control principles sufficient? If not, what changes or additions would you propose and why?      AG9.1-AG9.14

**Comment: Yes.**

b) Do you agree that a rebuttable presumption relating to control should be retained? Is the current drafting sufficient? If not, what would you propose and why?      G9.17

**Comment: SIRC of ICAI agree that agree that a rebuttable presumption relating to control should be retained.**

c) Is the Application Guidance sufficient to apply the fundamental characteristics of faithful representation and relevance to consolidation? If not, what additions would you propose and why?      G9.21-G9.22, AG9.17-AG9.19

**Comment: Financial information should satisfy the following two basic characteristics: relevance and faithful expression. Relevance is a characteristic that can make a difference in decision-making by the users of financial information and affect their understanding of the status of resource usage in an organization, while faithful expression is a characteristic that ensures the information faithfully depicts its intended phenomenon. Faithful expression is built on the following three characteristics: completeness, neutrality, and being free from material errors.**

The usefulness of financial information is enhanced by the following four characteristics: comparability, verifiability, timeliness, and ability to understand, which are referred to as enhancing qualitative characteristics, compared to basic qualitative characteristics. Specifically, they are positioned as the characteristics that further enhance the usefulness of financial information to the extent that the information satisfies the basic qualitative characteristics.

**Therefore SIRC of ICAI agree that the Application Guidance sufficient to apply the fundamental characteristics of faithful representation and relevance to consolidation.**

d) Do you agree with the use of the terms 'controlling NPO', 'controlled entity' and 'beneficial interest' instead of 'parent', 'subsidiary' and 'investment'? If not, what would you propose and why? G9.7, G9.24

**Comment: Yes. SIRC of ICAI agrees.**

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Question 11: Approach to accounting policies, construction of estimates and accounting for errors

a) Do you agree with the updates to Section 10 and that there are no additional NPO specific considerations that need to be addressed in this Section? If not, what changes or additions would you propose and why?

**Comment: Yes.**

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Question 12: Scope and content of narrative reporting

References

a) Do you agree with the principles proposed to underpin narrative reporting? If not, what would you propose to change and why? G35.3-G35.7

**Comment: Yes. SIRC of ICAI agrees.**

b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as sustainability reporting to be optional? If not, what changes should be

**Comment: SIRC of ICAI is of the view a NPO cannot have minimum mandatory requirement to provide information. It has to disclose all relevant financial information to ensure that the funds are not misappropriated.**

c) Do you agree with the proposals that sensitive information can be excluded from narrative reports? If not, what alternative would you propose and why? G35.7

**Comment: SIRC of ICAI disagrees. Sensitive financial information cannot be excluded as an NPO has to account for Grants and Donations. It cannot be completely excluded. Non – financial sensitive information to be excluded, whereas sensitive financial information are to be disclosed since NPO are non profit motive.**

d) Should a two-year transition period for narrative reporting be permitted to assist in overcoming any implementation challenges? If not, what alternative would you propose and why?

**Comment: Yes 2 year transition period is necessary to overcome implementation challenges.**

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